

# STOP — READ — UNDERSTAND

*Before you sign*



## How to Identify and Avoid Predatory Mortgage Loans

### What is a predatory mortgage loan?

Predatory mortgage loans are high-rate and high-cost loans marketed to borrowers who have established some equity in their home. These loans involve borrower manipulation via aggressive sales tactics and/or taking unfair advantage of the borrowers lack of understanding how loan terms will affect them. Predatory loans often result in foreclosure.

### Who is targeted by predatory lenders?

Predatory lenders target homeowners who can least afford high-cost/high-rate mortgages. A disproportionate number of predatory loans are made to the elderly, those with limited incomes, those with a bad credit history, females and minorities.

### How are predatory loans marketed to consumers/borrowers?

Predatory loans are typically loans seeking customers. Mortgage loan brokers and home improvement contractors solicit these loans door-to-door. Predatory lenders solicit these loans by direct mail and by unsolicited telephone contacts. The representations made to borrowers are often misleading and deceptive.

### What are the indicators of a predatory loan?

- Lending without regard to the borrowers ability to repay the resulting mortgage loan.
- Misleading and deceptive marketing practices, inadequate disclosure of terms and fraud in the execution of loan documents.

### How do I avoid predatory loans?



Avoid loan brokers and home improvement contractors who solicit you for mortgage loans, particularly loans that contain any of the features identified below:

**Loan Flipping** (frequent refinancing of mortgage loans). Loan brokers and arrangers (home improvement contractors) who encourage frequent refinancing should be avoided.

**High Interest Rates** (interest rates in excess of credit risk). Consumers should seek out their own lender when refinancing and comparison shop for the best rates based upon their credit worthiness.

**High Costs of making the loan** (excessive fees required by predatory lenders included in the mortgage loan). Consumers should review the loan terms in advance. If any of the terms identified below are included in the loan, the consumer should avoid entering into such mortgage loan:

- **Prepayment penalties** — Borrowers should not be penalized for paying off a loan early. Pre-pay penalties of 5% are not uncommon. These penalties are deferred and result in stripping the equity from borrowers homes. Moreover, loans with this feature trap borrowers in bad loans for extended periods of time.
- **Excessive brokers fees and yield spread premiums** — Loans with brokers fees that exceed the benefit to the borrower should clearly be avoided. Moreover, yield spread premiums, which compensate the broker/loan arranger for placing the borrower in a higher interest rate loan than the borrower qualifies should be avoided at all costs. The borrower is being exploited by paying significantly more than their credit rating would otherwise qualify them to receive.
- **Excessive Points/Origination fees** — Fees and points that exceed 3% to 4% of the loan amount should be avoided.

- **Unnecessary and/or high cost insurance** (single premium credit insurance financed over the term of mortgage loans) — Never finance into the loan credit or other insurance up-front in a lump-sum payment. The cost of doing so is exorbitant over the term of the loan.
- **Balloon payments** — This is a lump-sum payment due at the end of the loan term (final payment). Often this amount is equal to the amount financed when entering into the loan.
- **Increased interest rate if delinquency occurs during loan term** — Avoid these terms in any loan.
- **Mandatory arbitration clauses** — Do not enter into loans where you relinquish the right to judicial resolution of disputes.
- **Income and/or home valuation inflation** — Never sign loan documents where your income or the value of your home has been inflated so you qualify for a loan. You can't afford this type of loan and could lose your home.



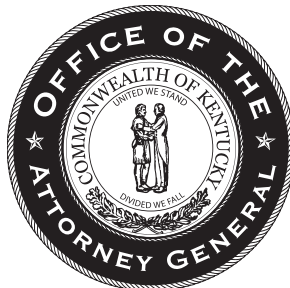
## DO

- Be cautious. Shop around for mortgage loans.
- Never act too quickly. Avoid lenders who call and make promises over the telephone. Avoid offers that are only good for a day or two.
- Ask questions. Never sign a contract before you read it and understand it fully.

## DON'T

- Agree to a home refinancing if you do not have the income to make the monthly payments. You will lose your home.
- Sign any document you have not read or that contains blanks to be filled in later.
- Be pressured into signing any document.
- Agree to a loan that includes credit insurance or other products you don't need.
- Agree to a loan that includes a balloon payment.
- Let the promise of extra money or lower monthly payments cloud your judgment about whether the cost of the loan is worth what you will ultimately pay for the loan.

The Office of the Attorney General works to prevent violations of Kentucky's Consumer Protection Act (KRS 367.170) which prohibits unfair, false, misleading and/or deceptive acts or practices in trade or commerce. This office also provides information to the public to assist with the prevention of predatory practices in the marketplace. To file a complaint call **888-432-9257**.



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